smart TALK

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FROM THE DESK OF PHILIP ENGER

Dear Reader,

Sufficient time has now passed since the 2009-2010 Budget once again moved many goal posts and disrupted many people's life, largely as a result of changes deemed necessary by the Government as it tried to make sense of the Global Financial Crises in the context of prevailing political and perceived economic realities. For Clients and Financial Advisers like Dollar Growth Financial Planning and its allied businesses, which make up Dollar Growth Group, the past year has been distressing and challenging.

We feel confident that while we are not yet out of the woods, there is some room for cautious optimism that life with many new options is beginning to unfold. Like with the freedoms that we cherish the price of success and financial stability is eternal vigilance. In plain talk, we all have to keep looking for what solutions and options are the best to pursue in the time and space ahead.

More than ever the ramifications of any decision taken on one aspect of financial planning will ricochet through the other effected aspects of our life and more or less reduce the validity of all previous decisions taken. It is essential that we all take the time and effort to check the estate plan we wrote some years ago; see if our bank is really 'as friendly as we thought it was'; see if our Accountant has gone to sleep or check to see if our investments are still 'prime'.

Chances are that for most people the sheer rate of change in personal financial arrangements and economic circumstances will invariably expose gaps and undesired outcomes, leaving previously tied down agreements potentially unsuitable and unsatisfactory.

Unfortunately this probably means that you too may be affected to some degree!

The following review of changes to aspects of retirement planning is a shortened version of a more substantial analysis that may be viewed on our website www.dollargowth.com.au. I strongly encourage all of you to visit our website to read this more detailed version of this Smart Talk piece (and of course to peruse other material of interest on the site).

RETIREMENT PLANNING ISSUES AND STRATEGIES

A specific conundrum continues to be that of retirement and how to fund it. Endless tinkering with superannuation rules has sent people scurrying back to the drawing board to review their retirement plans following this year's budgetary changes.

The key changes are a lift in the age for eligibility for the age pension and caps on concessional (tax deductible) contributions.

Those who want to retire earlier are going to have to set aside a retirement lump sum outside of super, which can be accessed at any time. Concessional contribution caps are also to be halved. From July 1 the $100,000 cap for over-50s will be halved to $50,000 and for those under 50, the cap will be halved from $50,000 to $25,000.

The halving of concessional contribution caps limits the maximum amount that can be salary sacrificed into super in any one financial year, will hit higher-income earners.

Please note, a reassessment of retirement plans is not just for the wealthy. The age at which the age pension and pensioner concessions can be accessed will be increased from 65 to 67. That is important, because about two-thirds of retirees get at least a part-age pension. Under current arrangements, those born before July 1, 1960, can access their super at age 55 while those born after June 30, 1964, have to wait until 60.

Currently, those over age 60 can draw a lump sum or pension payments tax free. However, there are fears the Government will increase the access age for lump sum draw-downs or will limit the amount that can be taken as a lump sum, to encourage people to take a private (their own) income stream instead.

All this makes me wonder what impact these matters could have on the tax implications of estate planning for those unfortunate people who currently have wills that in reality, may be ineffective as their solicitor may not have given any or adequate thought to addressing such time-bombs.

TAX EFFECTIVE STRATEGIES

"Particularly for those over 50, super is still the best investment that you could be putting your money into," says the technical counsel for the National Institute of Accountants. With super, there is a 15 per cent tax on concessional contributions, such as employer and salary sacrifice contributions, and investment earnings are taxed at 15 per cent. Withdrawals, including lump sums and pension payments, are tax-free after age 60.

While there are tax-effective investments that are reasonably secure for those who want to build up some savings outside of super, tax effectiveness should never be the sole reason for choosing an investment.

GEARING

It is only worthwhile gearing into assets that are expected to yield reasonable capital gains over the long term, such as shares and property. It requires a long-term commitment to ride out the inevitable falls of investment markets and the investor has to be comfortable with those risks and time frames.

Depending on such factors as risk averseness and the time-frame for retirement, we at Dollar Growth Financial Planning would offer the view that shares are probably a better prospect for investment at this point of the business cycle than direct self sourced property. Despite all that has happened in recent times it seems likely that people with a well diversified portfolio will do well out of the stock-market in coming years.

INVESTMENT BONDS

While super is still king and any increase in the access age to super would occur gradually, some people may want to invest outside of super in case they need to draw on the money before they retire, or simply to add to their retirement savings pot.

Investment bonds (and Friendly Society Bonds) are one of the best tax-effective investments going. These are like managed funds in that the investor gets to select whether to invest in a balanced fund, which spreads the money between asset classes, or shares. They are a tax-paid investment with tax paid at 30 per cent, or a bit less because of the franking credits on the shares.

RENTAL PROPERTY

Property is always an investment for the long-term so investors should be cautious about taking on excess debt, especially now that unemployment is rising. It is not only the risk to the investor's job that is of concern but also the employment of the tenant, because the rental property may be unoccupied if the tenant loses his or her job.

With the prospects of direct property capital gains in the short and medium term not that great, due to the lower inflation environment, property investors need to focus on the yield they will be getting and look closely at the numbers.

BEAUTY OF HOME OWNERSHIP

One of the best ways to help secure a comfortable retirement is to have the house paid off as it is capital gains tax exempt.

It depends on clients' individual circumstances but generally we recommend that they get rid of or restructure non-tax-deductible debt, which includes their mortgage. If there is an outstanding loan on a property it is just as well to be putting money into that rather than ploughing every cent into super. The return on this strategy is likely to be far higher.

(Based on an article by John Collett: SMH June 10, 2009)

We are living in very difficult and uncertain times. But as always, we at Dollar Growth Group are here to provide top quality advice and continuing service. Keeping you informed is one of our key goals. If you need any assistance of any nature, please come and see us or ring us to arrange a visit to your home-or any place of your choosing.

Philip Enger
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